5 External Sector

Despite a significant improvement in the current account balance in H1-FY23, Pakistan's external account remained under stress during the period, mainly owing to scheduled repayments of loans and lower financial inflows. The decline in CAD was largely due to a fall in imports, resulting from demand management policies taken by the SBP and the government. Global economic slowdown due to the Russia-Ukraine conflict, tight monetary policy amid persistently high inflationary pressures, and a slowing Chinese economy brought about negative externalities in Pakistan's external sector through fall in exports and workers' remittances. Domestic political uncertainty and delay in concluding IMF's review also exacerbated the situation, leading to a drawdown in foreign exchange reserves and persistent pressures on country's exchange rate.

5.1 Pakistan's Balance of Payments

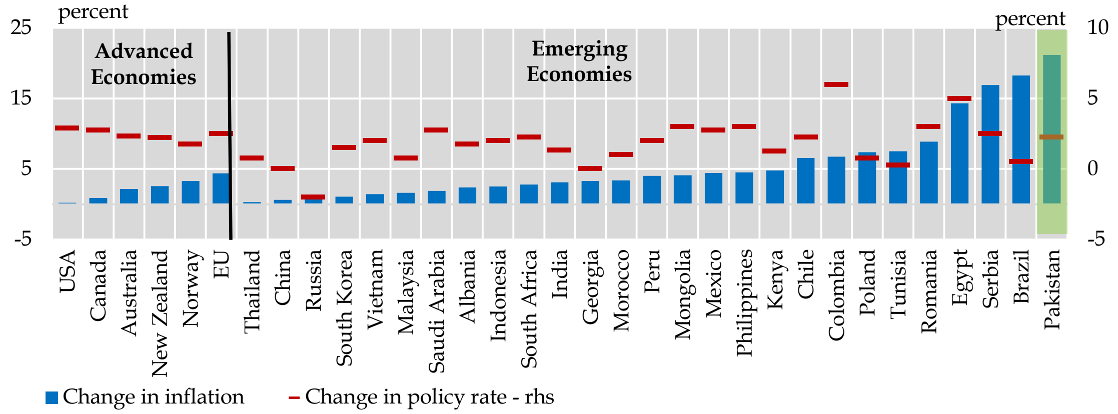
Pakistan's overall external account remained under pressure, despite a significant improvement in the current account deficit in H1-FY23. Central to this distress was the lack of adequate financial inflows owing to both global and domestic factors.

The demand side pressures, supply-chain disruptions arising from the Russia-Ukraine conflict and China's zero-Covid policy resulted in sizable inflationary pressures across advanced and emerging economies in 2022. The rising inflationary outlook prompted central banks around the world to tighten monetary policies (**Figure 5.1**). The global monetary policy tightening added to financial distress, leading to capital flight, as reflected in the fall in emerging markets' capital flow indices during H1-FY23 as compared to last year (**Figure 5.2**).

Domestically, insufficient official inflows amid delay in the resumption of IMF program put a major drag on the external account during the review period. Together with this, uncertainty stemming from political noise affected overall financial inflows, especially resulting in muted private capital inflows. Floods in the earlier months of the year undermined the rice exports and deteriorated the commodity import outlook due to damages to cotton production.

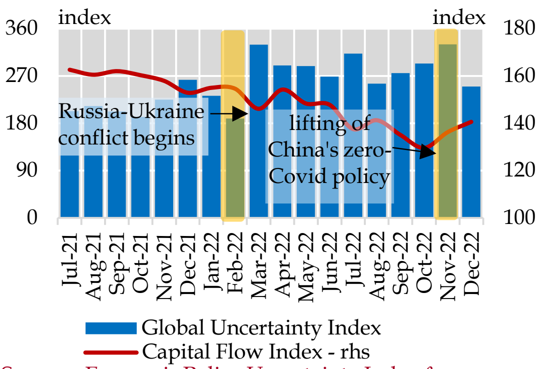
Nonetheless, Pakistan's current account recorded a significantly lower deficit of US$ 3.6 billion during H1-FY23, mainly on the back of a substantial reduction in imports. Although exports growth reduced as well, the overall impact of the imports' reduction dominated. The decline in imports was mainly in the backdrop of policy and administrative measures taken to rein in

Change in Inflation and Policy Rate during H1-FY23 **Figure 5.1**



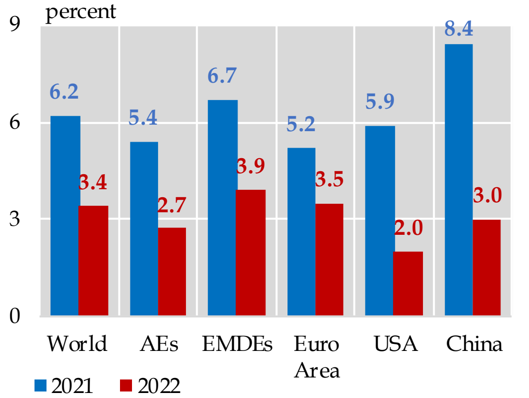
Source: International Monetary Fund

Global Uncertainty and EM Capital Flow Indices **Figure 5.2**



Sources: Economic Policy Uncertainty Index & Bloomberg

Real GDP Growth **Figure 5.3**



Source: International Monetary Fund

demand during FY22 and FY23. Meanwhile, the decline in exports mostly stemmed from textile and food products amid damages caused by floods and slowdown in the demand in the traditional markets, as reflected in decelerating global GDP growth rates (**Figure 5.3**).

Services account deficit also fell during H1-FY23 due to a decline in freight payments on the back of lower imports of goods. Interest payments on external loans increased, thus raising the primary income account deficit. Workers' remittances during the review period also recorded a decline from all major corridors including both advanced economies and GCC countries – with the marginal exception of USA. A number of factors came to play that reduced the inflow of remittances including lower demand in major remittance sending countries (UK and EU), inflationary pressures (in case of UK, EU and Saudi Arabia) and easing of travel restrictions.

The adverse global and domestic environment took its toll on the financial inflows, as there were net outflows during the review period. Despite foreign exchange loan disbursements higher than last year, the financial account posited a net outflow due to sizable amortizations along with disinvestments. Thus, financial outflows resulted in the worsening of the country's foreign exchange reserves and depreciation in PKR during H1-FY23. (**Table 5.1**).

5.2 Current Account

The current account recorded a significantly lower deficit of US$ 3.6 billion during H1-FY23, against a deficit of US$ 9.1 billion in the same period last year (**Figure 5.4**). The predominant factor behind this improvement was the 26.6 percent decrease in the merchandize trade deficit led by a substantial fall in import payments mainly due to policy and administrative actions to arrest demand pressures. The import decline of 18.2 percent was large enough to have contained the CAD despite lower export receipts and workers' remittances. Slowing global demand and high domestic input prices was mainly behind the 6.7 percent drop in export receipts; floods in the H1-FY23 also contributed in this under performance in the food exports. The services deficit also plunged from last year's levels by 85.1

Pakistan's Balance of Payments **Table 5.1**

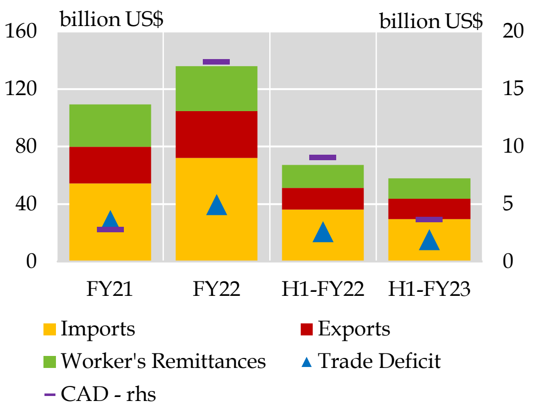
million US$

	H1-FY22	FY23 Q1	FY23 Q2	FY23 H1	YoY Change in H1-FY23 Absolute	YoY Change in H1-FY23 Percent
Current account balance	-9,091	-2,446	-1,111	-3,557	5,534	-60.9
Balance on trade in goods	-20,853	-8,989	-6,317	-15,306	5,547	-26.6
Exports of goods	15,242	7,391	6,831	14,222	-1,020	-6.7
Imports of goods	36,095	16,380	13,148	29,528	-6,567	-18.2
energy imports	8,571	6,079	3,987	10,066	1,495	17.4
non-energy imports	27,524	10,301	9,161	19,462	-8,062	-29.3
Services account balance	-2,139	-281	-38	-319	1,820	-85.1
Primary income balance	-2,554	-1,028	-1,576	-2,604	-50	2.0
Interest Payments	1,399	2,224	949	3,173	1,774	126.8
Secondary income balance	16,455	7,852	6,820	14,672	-1,783	-10.8
Workers' remittances	15,808	7,686	6,426	14,112	-1,696	-10.7
Financial account (net)*	-10,105	-217	1,418	1,201	11,306	-111.9
Direct investment (net)*	-1,070	-205	873	668	1,738	-162.4
Portfolio investment (net)*	374	30	1,001	1,031	657	175.7
Build-up in FX assets abroad	**415**	**36**	**-1,391**	**-1,355**	-1,770	-426.5
FX Loans & liabilities	**9,823**	**77**	**-937**	**-860**	-10,683	-108.8
Banks	**573**	**-25**	**-107**	**-132**	-705	-123
General Government	**5,868**	**245**	**-519**	**-274**	-6,142	-104.7
Disbursements	4,971	2,206	3,151	5,357	386	7.8
Amortization	2,676	1,861	3,560	5,421	2,745	102.6
SDR Allocation	2,773	0	0	0	-2,773	
Other Sector	**606**	**-146**	**-311**	**-457**	**-1,063**	**-175.4**
Disbursements	936	81	173	254	-682	-72.9
Amortization	532	315	500	815	283	53.2
SBP's Liquid FX Reserves	17,686	7,860	5,586	5,586	-12,100	-68.4
PKR dep (-) / app (+) – YoY in percent	-3.5	-26.6	-21.8	-24.1	-	-

*as per BPM6, negative sign means net FX inflow into Pakistan and vice versa.

Source: State Bank of Pakistan

Current Account Balance Overview **Figure 5.4**



Source: State Bank of Pakistan

percent mainly on account of lower outflows of freight and insurance services as both are linked to imports of goods. Contrary to the upward trajectory over the last few years, workers' remittances registered a decrease of 10.7 percent as inflows from nearly all the major corridors showed a decline mainly because of rising living cost on the back of high inflation and lower demand. The primary income deficit increased by 2.0 percent during the period mainly on the account of higher interest payments on government external debt.

Breakdown of Services Trade Account in H1 **Table 5.2**

million US$

	Import (M)		Export (X)		Balance (X-M)	
	FY23	YoY Change	FY23	YoY Change	FY23	YoY Change
a) Transport	**2,181.1**	**-702.0**	**429.9**	**54.1**	**-1,751.2**	**756.0**
Sea freight	1,563.9	-623.4	79.0	47.5	-1,484.8	671.0
Air passengers	434.3	103.1	216.0	14.7	-218.3	-88.4
Air freight	30.9	-93.1	16.6	1.9	-14.4	94.9
b) Travel	**556.1**	**-19.9**	**255.2**	**-26.8**	**-300.9**	**-7.0**
Education exp.	162.1	38.0	5.2	-1.1	-156.9	-39.2
Other (personal)	387.8	-55.2	247.3	-25.7	-140.6	29.4
c) ICT Services	**167.1**	**-162.9**	**1,333.2**	**31.3**	**1,166.1**	**194.2**
Software consultancy services	82.5	-28.6	391.7	23.4	309.2	51.9
Other Computer services	21.6	-20.0	366.8	-24.6	345.3	-4.6
Export of Computer software	39.0	-100.5	302.4	30.7	263.3	131.1
Call centers	0.0	-0.1	107.0	5.3	107.0	5.4
Subtotal (a+b+c)	**2,904.3**	**-884.7**	**2,018.3**	**58.6**	**-886.0**	**943.3**
Total services	**3,884.4**	**-1,686.9**	**3,527.0**	**95.2**	**-357.5**	**1,782.1**

Source: State Bank of Pakistan

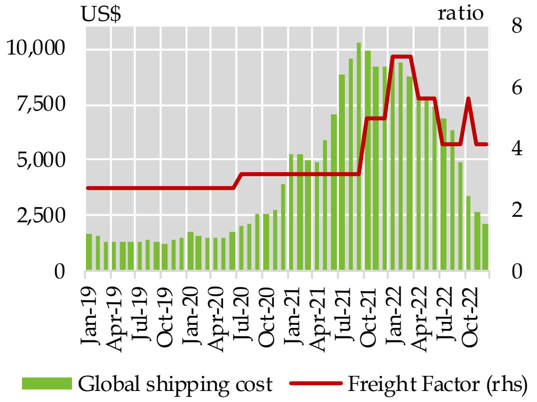
Services Account

The services trade deficit contracted by 85.1 percent to US$ 319 million in H1-FY23 from US$ 2,139 million last year. The fall in the deficit was due to a sharp decline in services imports **(Table 5.2)**.

Disaggregated data shows that the contraction was attributed mainly to the fall in the transport sector followed by travel services. Within transports, sea freight remained the major contributor to the decline on the back of lower merchandized imports during the period. Moreover, the global shipping cost dropped significantly in H1-FY23 compared to last year. Moderating global oil prices and normalization of post-Covid logistics demand, which helped decrease the freight costs (**Figure 5.5**).[1]

Personal travels including religious and recreational travel also posted a visible decline in H1-FY23, this could be traced to a large base impact last year owing to high pent-up demand for international travel,

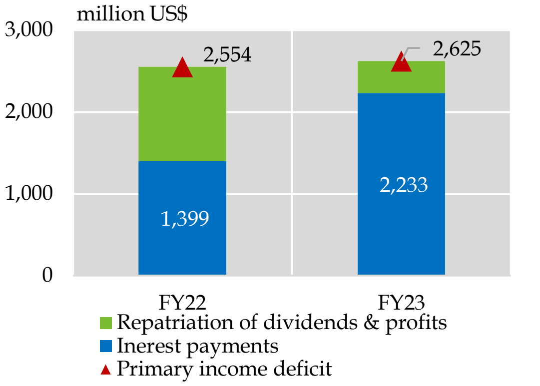
Global Shipping Cost and Freight Factor **Figure 5.5**



Source: Bloomberg and State Bank of Pakistan

[1] CIF margin also dropped in Q2-FY23 to 4.14 percent from 5.03 percent last year. SBP estimates freight payments by applying a uniform factor to import payments based on survey from logistics and freight companies.

Primary Income Deficit and Interest Payments during H1 **Figure 5.6**



Source: State Bank of Pakistan

when the travel restrictions amid Covid were eased out.

On the other hand, exports of information and communication technology (ICT) growth recorded a slight improvement of 2.4 percent YoY in H1-FY23 compared to last year. This growth in ICT exports was due to the higher usage of tech-driven services amid the lockdown related restrictions across the globe.[2] Within ICT services exports, a slight improvement in computer and call center services was seen during the period.

Primary Income Account

The primary income deficit rose by 2.0 percent to US$ 2.6 billion in H1-FY23. Higher interest payments on government external debt primarily contributed in widening of the deficit, however, profit and dividend repatriation by foreign companies declined during the period (**Figure 5.6**). In line with the elevated external borrowing in the past few years, the interest payments rose considerably from US$ 1.4 billion in H1-FY22 to US$ 3.2 billion during the review period.

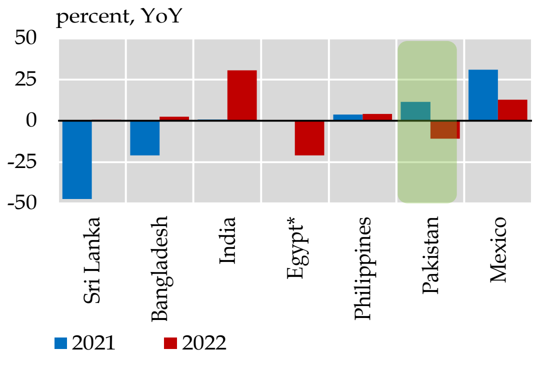
Meanwhile, the increasing global interest rate environment also contributed to the rise in Pakistan's debt servicing.

On the contrary, the profit repatriation by foreign companies posted a decline of US$ 673.9 million during H1-FY23 compared to the corresponding period last year. Particularly, this trend can be explained by: (i) a slowdown in economic activity resulting in lower profitability of corporates; and (ii) substantial PKR depreciation.

Workers' Remittances

Remittances showed a mixed trend across the major recipient economies. For instance, remittances fell in Egypt and Pakistan; decelerated in Mexico; and slightly increased in Bangladesh, Sri Lanka and the Philippines (**Figure 5.7**). In case of India, remittances showed robust growth on account of short-term and long term trends such as post-Covid resumption of work; and Indian migrants' gradual shift from mostly blue collar employment in the GCC countries to largely high-skilled white collar employment

Growth in Remittances to Major Recipients in Jul-Dec **Figure 5.7**



*2022 growth for Jul-Sep latest available data

Source: Haver Analytics and State Bank of Pakistan

[2] See Special Section on, 'Pakistan's Growing IT Exports and Tech Start-ups: An Opportunity to Leapfrog? in this report.

Workers' Remittances **Table 5.3**

million US$

	Q1-FY22	Q2-FY22	Q1-FY23	Q2-FY23	H1-FY22	H1-FY23	Growth (%)
US	762.5	731.2	813.1	726.2	1,493.7	1,539.3	3.1
UK	1,137.3	1,009.6	1,085.1	898.7	2,146.9	1,983.8	-7.6
Germany	132.7	127.5	123.2	119	260.2	242.2	-6.9
France	131.1	126.5	112.9	103.6	257.6	216.5	-15.9
Italy	230.4	216.8	226.8	191.6	447.3	418.4	-6.5
Australia	189.7	200.6	170.8	142	390.3	312.8	-19.9
Canada	170.4	169	160.7	128.4	339.4	289.1	-14.8
GCC	4,610.7	4,238.3	4,232	3,491.2	8,849.0	7,723.2	-12.7
Saudi Arabia	*2,095.4*	*1,938.7*	*1,885.6*	*1,598.9*	*4,034.0*	*3,484.4*	*-13.6*
UAE	*1,601.1*	*1,407.3*	*1,468.4*	*1,136.1*	*3,008.4*	*2,604.5*	*-13.4*
Other GCC	*914.3*	*892.3*	*878*	*756.3*	*1806.6*	*1634.3*	*-9.5*
Other countries	833.6	789.2	762.1	625.3	1,622.80	1,387.4	-14.5
Total remittances	**8,198.6**	**7,608.6**	**7,686.6**	**6,426.0**	**15,807.2**	**14,112.6**	**-10.7**

Source: State Bank of Pakistan

in advanced economies such as the United States, the United Kingdom, Singapore, Japan, Australia, and New Zealand.[3]

In contrast, Pakistan received lower remittances amounting to US$ 14.1 billion in H1-FY23 compared to US$ 15.8 billion in the corresponding period last year. Quarterly data shows that QoQ decline of 16 percent in Q2-FY23 is the highest in the last 22 years. The reduction in remittances is broad based as evident from the decline from major sources, including Saudi Arabia, the UAE and the UK.

Inflows from all the major corridors including advanced economies and GCC showed a decline in the first two quarters of FY23 on YoY basis except a nominal growth in remittances received from USA during first half of FY23 (**Table 5.3**).

Along with various global and domestic developments affecting remittance flows, Pakistan also remained vulnerable to the changing labor dynamics and exchange rate movements (details in the **Box 5.1**).

Box 5.1: The Declining Workers' Remittances

Remittance flows remained on a declining trajectory throughout H1-FY23 with a more pronounced decrease in Q2-FY23. It is also noteworthy that, for Pakistan, remittances have recently been almost at par with exports in terms of generating FX inflows and containing current account deficit. Where the recent decline in remittance flows is a serious concern, it has also led to conjectures regarding its causes. A host of recent domestic and global developments may have affected the flow of remittances to Pakistan in H1-FY23.

Based on the average annual workers' remittances received during last three years (i.e. FY20 – FY22),

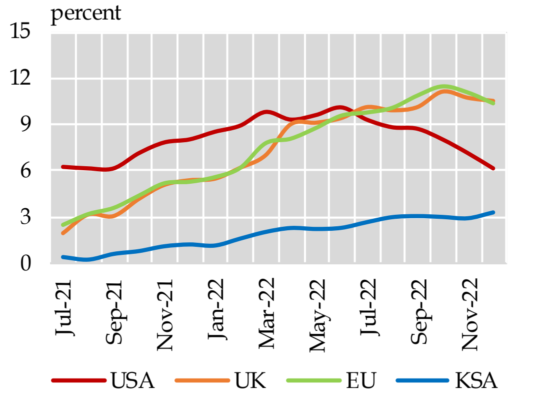
[3] Source: Migration and Development Brief 37, October 2022, World Bank

Saudi Arabia (KSA), UAE, UK and USA are the top four host countries respectively, and contributed 69.5 percent of total remittances.

Rising Inflation, Monetary Tightening and Slowdown in the High-Income Host Countries

While overall global commodity prices have started moderating during H1-FY23, energy and food prices still remained vulnerable to shocks such as supply disruptions in the wake of Russia-Ukraine war. Consequently, inflation in UK and EU reached multi-year high levels in 2022, which in turn, led to lower real wages of workers and curtailed their ability to remit to home (**Figure 5.1.1**).

YoY Inflation in Major Host Countries **Figure 5.1.1**



Source: Haver Analytics

Monetary contraction in response to higher inflation led to slowdown in these economies. Further, impact of fiscal stimulus provided during the pandemic to support economic activity in the host countries began to wane as well.[4] Hence, slowdown in these host countries could be another factor affecting employment opportunities and income levels of the Pakistani diaspora limiting their capacity to remit to home.

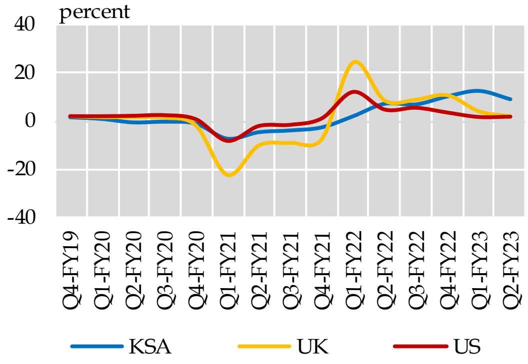
Changing Labour Market Dynamics in GCC Countries

Historically, flows from Saudi Arabia and UAE have been steering the overall remittances for Pakistan. Any change in the economic indicators of these countries can have a direct impact on remittance flows to Pakistan. Annual inflation in Saudi Arabia increased to its 18 months high level of 3.3 percent in December 2022 mainly on the back of rising prices of housing, food and transport.[5] In addition to higher inflation, the effects of global slowdown have also seeped into GCC economies through lower oil demand and moderating crude oil prices. As a result, higher cost of living and lower employment opportunities have added constraints on the ability of Pakistani workers in GCC to remit funds to home.

In other developments, Saudi Arabia continued implementation of its Saudi Nationalization Scheme (also known as 'Saudization' or ' Nitaqat'). Nitaqat is a policy that was announced with an intention to increase the percentage of Saudi nationals employed in the private sector and reduce the dependence on expatriate labor. During 2022, various decisions have been issued under this policy focusing on newer professions and sectors to attract Saudi nationals.[6] As this scheme is more focused towards white collar employment, increased tendency to prefer Saudi workers over expatriate workers reduces employment opportunities for non-Saudi white collar workers. This could, in turn, lead some of the white collar workers of other nationalities to temporarily compete for even relatively less skilled workers including blue-collar workers of Pakistani origin.

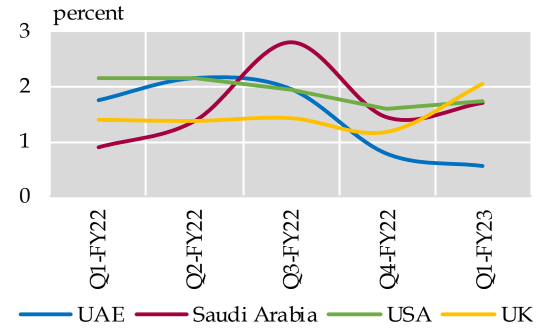
[4] Source: Migration and Development Brief 37, October 2022, World Bank
[5] Source: Trading Economics
[6] Source: www.zawya.com/en/economy/gcc/20-000-new-jobs-for-citizens-as-mhrsd-starts-implementing-saudization-of-four-key-professions-rhev7bns, retrieved on 25-February-2023

GDP Growth of Top Host Countries **Figure 5.1.2**



Source: Haver Analytics

Exchange Rate Margin for Remitting to Pakistan from Major GCC Corridors* **Figure 5.1.3**



*percent of transaction amount of US$ 200
Source: World Bank Remittance Prices

Moreover, current property boom in UAE (particularly in Dubai) might also have been an incentive for Pakistani diaspora to retain their savings in UAE in the shape of investments in real estate instead of remitting to Pakistan amid uncertain economic conditions.[7]

Informal Channels

The resumption of cross-border air travel may have led to shifting of some remittance inflows to informal channels as blue-collar workers (particularly from KSA and UAE) mostly depend on the personal networking to send remittances back home. Further, GoP's withdrawal of the incentive to banks (that is 20 Riyal rebate as a remittances fee on the remittances originating from KSA) may also have diverted some inflows to informal channels.[8]

In order to contain the soaring external account pressures, administrative and regulatory measures were taken to limit imports. It, in turn, also provided respite to PKR against USD and monthly average exchange rate, that had reached the peak of 231 in September 2022, moderated to the level of 225 in December 2022.

However, speculations in the open market caused the kerb market premium to increase substantially during Q2-FY23, which incentivized the informal money transfer channels to resurface and attract expatriate workers with higher exchange rate. Hence, official remittance flows to Pakistan are further decreased.

The data on remittance prices by World Bank also shows a slight increase in exchange rate margins charged by money transfer operators (MTOs) and exchange companies in Saudi Arabia and UK dis-incentivizing workers to use formal channels for remitting to Pakistan (**Figure 5.1.3**).[9]

[7] Average residential prices in Dubai and Abu Dhabi increased in 2022 by 9.5% and 1.5% respectively. Overall 90,881 transactions were reported in Dubai's residential market during 2022 breaking the record of 81,182 transactions in 2009. UAE Real Estate Market Review Q4 2022 – CBRE. Source: www.cbre.ae
[8] For details, see SBP Annual Report on State of Pakistan's Economy FY22.
[9] Source: Remittance Prices Worldwide, World Bank

5.3 Financial Account

The net official external financial outflows amounted to US$ 1.2 billion in Jul-Dec FY23, against an inflow of US$ 10.1 billion last year (**Figure 5.8**). Within the financial flows, Pakistan's net outflow of FX loans and liabilities amounted to US$ 860 million in Jul-Dec FY23, in contrast to net inflows of US$ 9.8 billion in Jul-Dec FY22. In the month of August, the government received US$ 1.2 billion tranche from the IMF, following the successful 7th and 8th combined reviews by the Fund. The ADB disbursed loans of US $ 1.6 billion for flood relief projects. Due to the downgrading of Pakistan's credit rating by Fitch and Moody's (Oct-22), and S&P (Dec-22), the repayment of a *Sukuk* bond, the rising CDS rates of the country, and the downgrading to a frontier market economy by MSCI, net FPI outflows in Pakistan amounted to US$ 1.0 billion in Jul-Dec FY23. Net FDI decreased by 44.1 percent in Jul-Dec FY23, largely on the back of a drop in inflows from countries including China and the US, along with the settlement of a mining case.

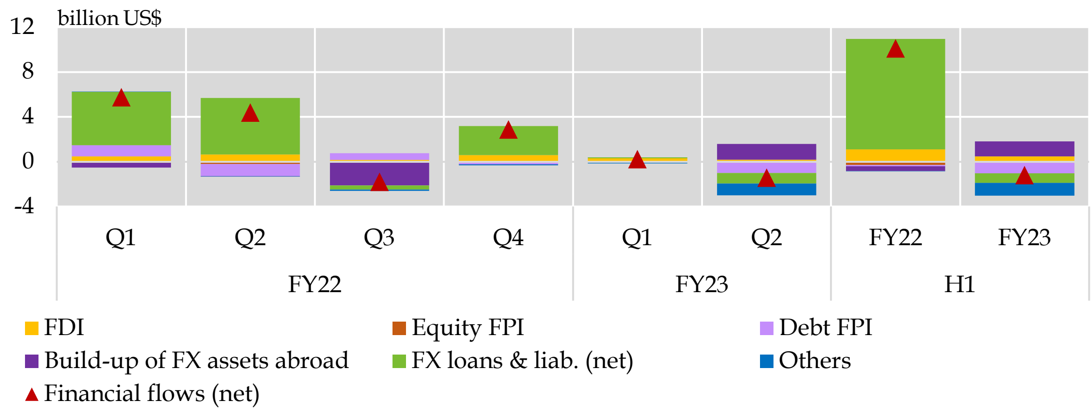
Foreign Direct Investment

Global trends

CY22 was a challenging year for investments, especially for cross-border FDI; a host of events including the Russia-Ukraine conflict, spiking inflationary pressures, a zero-Covid policy in China and rising debt pressures affected global FDI flows.

Cross-border mergers and acquisitions faced declines after record-highs in CY21, pointing to the prevailing uncertainty and tighter financial conditions (**Figure 5.9**). The fall in cross-border FDI was particularly sharp in H1-FY23 (**Figure 5.10**). Following monetary tightening by the US, the UK and the EU, the number of cross-border deals dropped globally.[10] The venture capital industry (which expanded in CY21 and at the beginning of CY22) reversed course with the

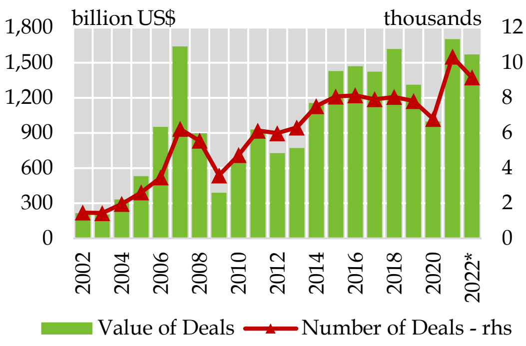
Financial Account Breakdown **Figure 5.8**



Source: State Bank of Pakistan

[10] The number of deals fell by 21.3 percent in North America, 14.4 percent in Oceania, 12.1 percent in Asia and 8.6 percent in Europe YoY. Source: fDi Intelligence

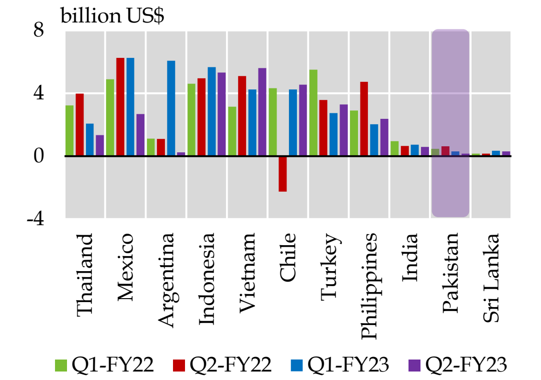
Cross-Border Mergers and Acquisitions **Figure 5.9**



*estimated by PitchBook

Source: PitchBook

FDI in Major EMs **Figure 5.10**



Source: Haver Analytics

onset of the weak macroeconomic environment.[11] However, India outpaced the US, UK and China in attracting 225 FDI projects into research and development, reflecting the shift of multinational companies towards developing their own divisions on R&D in India over using intermediary providers.[12]

Developments in Pakistan

Overall FDI in Pakistan declined to US$ 461 million in H1-FY23 from US$ 1.1 billion in H1-FY22 (**Table 5.4**). Sector-wise FDI data depicts a drop in most sectors (power especially coal, financial firms, communications particularly telecom, and electrical machinery); however, there have been increases in the hydel, chemicals and food sectors.

The decline in FDI into the power sector was largely due to the completion of a few projects under CPEC, such as the HUBCO Thar Coal Power Project.[13] This was indicative in the decline in FDI inflows from China – a downturn of US$ 163.7 million in H1-FY23 from the same period last year. There were also net FDI outflows due to the settlement of an investment dispute over a mining project, causing a disinvestment from mining and quarrying sector. Furthermore, inflows fell from the USA due to the shutting down of an online grocery service[14] (a decline in transport sector) and a fall in inflows in the banking service.[15]

With respect to the telecom industry in Pakistan, it has faced challenges because of the floods, causing service degradation and hindering the proper implementing of projects; additionally, a popular micro-

[11] From July to September 2022, global venture capital funding was at US$ 82.2 billion – one-third of its value in the past quarter; Crunchbase

[12] Data is up to October 2022. Source: fDi Intelligence

[13] The project was completed in September 2022, according to CPEC Authority.

[14] Airlift, initially a bus service that later pivoted to grocery delivery, shut down its operations in Pakistan in July 2022.

[15] The major reasons quoted by said bank included global monetary tightening, inflation-led uncertainties and a slowdown in economic growth.

Sector-wise Net FDI Flows in Jul-Dec **Table 5.4**

million US$

	FY22	FY23	Absolute Change
Power ⬇	345.3	237.1	-108.2
Coal ⬇	*234.3*	*61.7*	*-172.6*
Hydel ⬆	*38.9*	*70.7*	*31.8*
Mining & Quarrying ⬇	-3.3	-226.1	-222.8
Financial firms ⬇	230.2	176.0	-54.2
Oil & gas** ⬇	130.5	100.5	-30.0
Communications ⬇	159.6	-24.9	-184.5
Telecom ⬇	*70.3*	*-51.4*	*-121.7*
IT ⬇	*89.3*	*26.5*	*-62.8*
Trade ⬇	39.0	20.9	-18.1
Electrical machinery ⬇	31.4	0.9	-30.5
Transport ⬇	23.5	8.5	-15.0
Electronics ⬇	-21.2	-25.3	-4.1
Chemicals ⬆	15.3	16.2	0.9
Food* ⬆	-0.9	3.3	4.2
Others ⬇	162.0	173.8	13.0
Total ⬇	**1,114.7**	**460.9**	**-653.9**

*includes food packaging; **exploration & refining

Source: State Bank of Pakistan

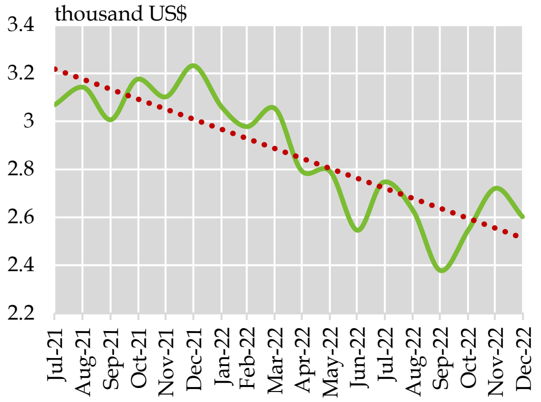
financing company has witnessed higher net FDI outflows in H1-FY23. Additionally, the oil and gas sector also faced downfall largely on the back of a lower demand for furnace oil and the dearth of sufficient technology for further exploration.

Foreign Portfolio Investment

Global trends

Global financial conditions underwent considerable tightening in H1-FY23; risk appetites dampened as global growth plunged further amidst persistent inflationary pressures and tightening of monetary policies. The MSCI world equity index declined in H1-FY23 in US dollar terms (**Figure 5.11**).

MSCI World Equity Index **Figure 5.11**



Source: Bloomberg

The tighter monetary policies affected EMDE capital flows; China saw considerable debt market outflows in CY22, with other EMDEs facing weak debt and equity flows. The appreciating US dollar has compressed borrower countries' ability to borrow that have a greater degree of net dollar exposures, thus adding on to inflation in these net dollar-debtor economies. Resultantly, EMDEs with larger dollar-denominated debt burdens used forex reserves, monetary tightening or both as buffers against the pressures on their domestic currencies. EMDE bond issuance dropped to its lowest level in CY22 since CY11 (**Figure 5.12**);[16, 17] net energy-importer economies with weaker credit ratings noted an increase in their sovereign spreads.[18]

Developments in Pakistan

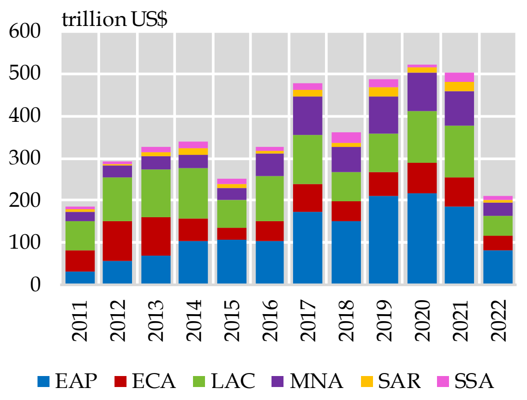
Pakistan underwent higher net FPI outflows in H1-FY23, amounting to US$ 1.0 billion against outflows of US$ 374 million during the same period last year. Most outflows of

[16] Global Economic Prospects, World Bank

[17] EAP = East Asia Pacific; ECA = Europe and Central Asia; LAC = Latin America and the Caribbean; MNA = Middle East and North Africa; SAR = South Asia; SSA = Sub-Saharan Africa

[18] United Nations (2023). *World Economic Situation and Prospects 2023*, OCHA, United Nations

Bond Issuance in EMDEs **Figure 5.12**



Sources: Bloomberg and World Bank

US$ 1.0 billion were from debt securities (**Figure 5.13**).

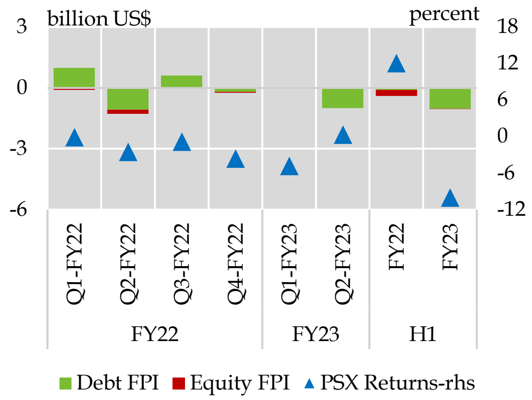
Sector-wise FPI saw net outflows in H1-FY23 from commercial banks, along with fertilizer and cement companies. However, there were net inflows from technology and communication companies, oil and gas exploration/marketing corporations, power generation and distribution enterprises and textile companies (**Figure 5.14**).

Furthermore, decline in PSX returns and downgrading of Pakistan's credit ratings by international credit-rating agencies resulted in FPI outflows.[19] The CDS rates of major EMs remained elevated; Pakistan's rates rose steeply, adding on to the difficulty in tapping funds from international markets (**Figures 5.15a and 5.15b**).[20]

FX Loans and Liabilities

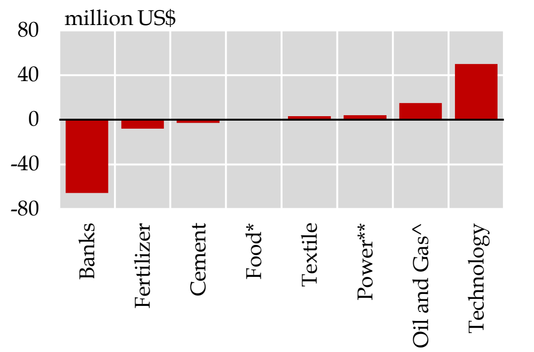
H1-FY23 saw net outflows of FX loans and liabilities of US$ 860 million. The IMF disbursed US$ 1.2 billion as part of the 7th and 8th combined reviews of the EFF. US$ 1.6 billion were received from the ADB in order to help the Pakistani government provide social protection nets, promote food security, and support employment for its people with the onslaught of the floods and global supply chain bottlenecks. Other loans received included US$ 600 million from

PSX-Returns and FPI into Pakistan **Figure 5.13**



Source: State Bank of Pakistan & Haver Analytics

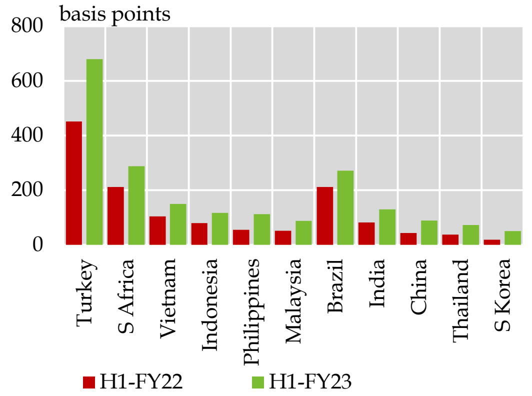
Sector-wise FPI in H1-FY23 **Figure 5.14**



*Food and personal care products **Power generation and distribution ^Oil and gas exploration and marketing
Source: National Clearing Company of Pakistan Limited

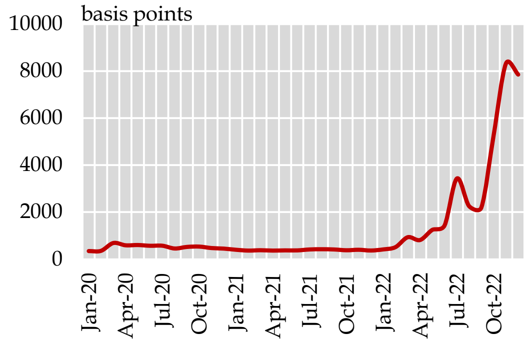
[19] These included S&P, Moody's and Fitch.
[20] A CDS, akin to an insurance contract, provides the purchaser of the fixed income product with protection against various risks. It does so by transferring the risk to another party without transferring the ownership of the bond itself. Higher CDS rates indicate greater risk.

Average CDS Rates in Major EMs **Figure 5.15a**



Source: Bloomberg

Pakistan's CDS Rates **Figure 5.15b**



Source: Bloomberg

Saudi Arabia for oil imports and loans from the IDA branch of the World Bank for crisis-resilient social protection, Sindh Resilience Project, and the Pakistan Met Department (among other projects – summing to a total amount of US$ 548.1 million).

Amortization of loans amounted to US$ 5.4 billion in Jul-Dec FY23, up from US$ 2.7 billion during the same period last year. This was mainly due to the repayment of commercial loans of US$ 2.7 billion, IDB short-term loans of US$ 800.7 million, along with other multilateral (ADB, IDA-World Bank) and bilateral (China, Saudi) loans.

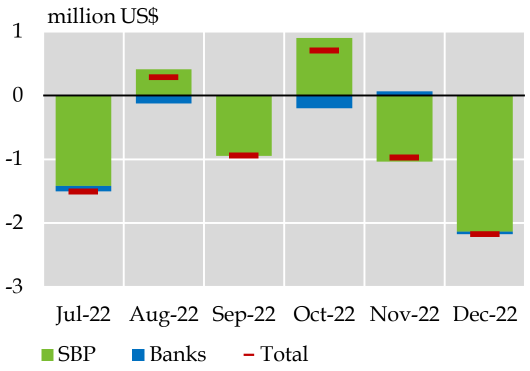
5.4 Exchange Rate and Reserves

Despite a considerable decline of 60.9 percent in the current account deficit from US$ 9.1 billion in H1-FY22 to US$ 3.6 billion in H1-FY23, SBP's foreign exchange reserves dropped to US$ 5.6 billion by end-December 2022 due to persistent pressures emanating from net outflows under financial account. External financial inflows during the period remained lower than the planned commitments and, hence, were inadequate to meet repayments causing FX reserves to decline. Net official external financial outflows reached to US$ 1.2 billion in H1-FY23, as compared to net inflows of US$ 10.1 billion during the same period last year.

Foreign exchange inflows materialized in the shape of IMF tranche of US$ 1.2 billion in August 2022 subsequent to successful 7th and 8th reviews, multilateral loans (ADB, AIIB & IDA) totaling more than US$ 3 billion and Saudi oil facility of US$ 600 million. However, amortizations of gross official loans and liabilities almost doubled in Q2-FY23 from the previous quarter and amounted to US$ 5.4 billion in H1-FY23. In addition, falling FDI and FPI resulted in overall net financial outflows that continued to exert pressure on foreign exchange reserves and exchange rate.

While SBP's FX reserves fell substantially during first half of FY23, FX reserves held with commercial banks were not under the same level of pressure and declined merely by US$ 376 million. This may be attributed to lower trade financing as a consequence of demand management measures taken during the period. SBP's reserves recorded a major decline mainly on account of repayment of long term liabilities of US$ 1.6 billion and

Breakdown of Change in Pakistan's Liquid FX Reserves in H1-FY23 **Figure 5.16**



Source: State Bank of Pakistan

amortization of Sukuk bond of US$ 1 billion in the months of November and December 2022 respectively **(Figure 5.16**).

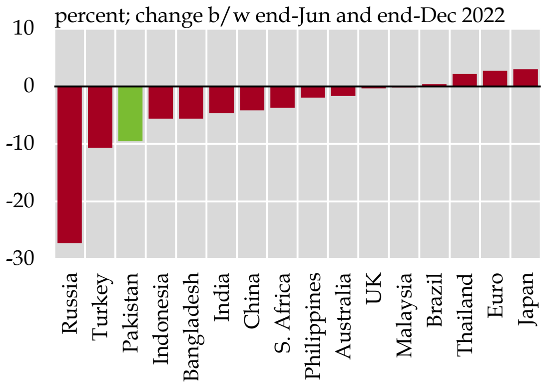
Deteriorating external account position along with broad-based strengthening of USD against other currencies led to 9.5 percent depreciation of end-period mark-to-market exchange rate in H1-FY23 (**Figure 5.17a**).

On the other hand, Real Effective Exchange Rates (REER) of most of the EMs remained relatively stable during H1-FY23 (**Figure 5.17 b**). As captured by the Relative Price Index (RPI), price pressures contributed positively to the change in REER of some EMs such as Pakistan, Argentina and Turkey, offsetting a general weakening in the nominal effective exchange rates (NEERs). Pakistan's REER appreciated by 2.4 percent during the period.

5.5 Trade Account[21]

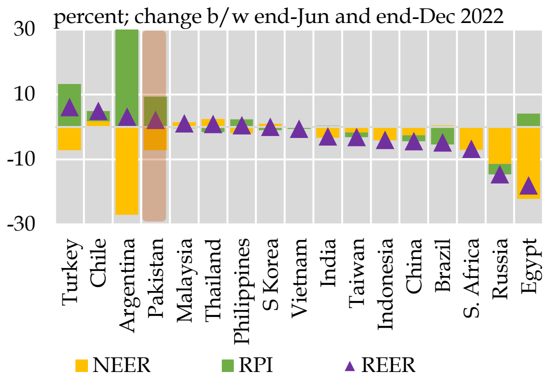
In the backdrop of economic slowdown, demand contraction measures, and a slight moderation in oil prices, the trade deficit contracted by US$ 8.5 billion (YoY) during Jul-Dec FY23 compared to last year (**Figure 5.18)**. This decline was mainly led by a 23.0 percent decrease in the imports. Exports also dropped by 5.7 percent during the period owing to lower global demand due to the monetary tighten, supply chain disruptions amid Russia-Ukraine conflict, higher input cost and flood losses, particularly in rice production (**Table 5.5**).

Change in Major Currencies against US Dollar in H1-FY23 **Figure 5.17a**



Source: Haver Analytics and State Bank of Pakistan

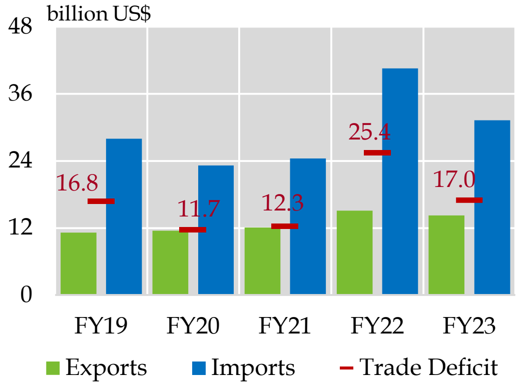
Change in REERs of Major EMs during H1-FY23* **Figure 5.17b**



*JP Morgan Effective Exchange Rates (deflated by CPI)

[21] This section is based on customs data reported by the PBS. The information in this section does not tally with the payments record data, which is reported in **Section 5.1**. To understand the difference between these two data series, see Annexure on Data Explanatory Notes.

Breakdown of YoY Change in Trade Deficit during H1 **Figure 5.18**



Source: Pakistan Bureau of Statistics

Imports witnessed a sharp dip of 23.0 percent during H1-FY23 compared to 66.2 percent growth during the same period last year. This decline was a result of multiple factors: i) continued demand-moderating measures by the government and the SBP, including SBP's prior approval on opening of letter of credit by banks; (ii) monetary tightening; (iii) imposition of 100 percent CMR on additional 177 items, and ban on non-essential imports in April 2022; (iv) foreign exchange concerns and; (v) increase in regulatory duty on import of various items in August 2022.

The decline in exports reflects the global slowdown in the demand in Europe, the UK and the US amid higher inflation on the back of growing energy expenditure, monetary tightening, and withdrawal of fiscal stimulus extended during Covid,. Also, the slowdown in Chinese economy pushed the exports downward. The decline in exports was mainly pronounced in the textile products amid decreasing prices along with the lower export volumes. Moreover, at domestic front, the disruptions due to the recent floods, and slowdown in economic activity, further dented the exports.[22]

Trade Balance during Jul-Dec **Table 5.5**

million US$

			Change (YoY)	
	H1-FY22	**H1-FY23**	**Absolute**	**Percent**
Trade Balance	**-25,438.0**	**-16,987.0**	**8,451.0**	**-33.2**
Exports	**15,125.0**	**14,258.0**	**-867.0**	**-5.7**
Textile	9,381.2	8,717.5	-663.7	-7.1
Knitwear	*2,500.3*	*2,466.8*	*-33.5*	*-1.3*
Bed-wear	*1,659.7*	*1,427.7*	*-231.9*	*-14.0*
Cotton yarn	*610.4*	*381.5*	*-228.9*	*-37.5*
Non-textile	5,744.1	5,553.3	-190.7	-3.3
Rice	*1,066.8*	*926.6*	*-140.2*	*-13.1*
Sports goods	*163.8*	*208.6*	*44.8*	*27.3*
Imports	**40,562.7**	**31,217.0**	**-9,345.7**	**-23.0**
Energy	10,181.8	9,285.5	-896.2	-8.8
Non-energy	30,381.2	21,959.5	-8,421.8	-27.7
Palm oil	*1,843.9*	*2,082.3*	*238.3*	*12.9*
Machinery	*5,915.4*	*3,236.2*	*-2,679.2*	*-45.3*
Transport	*2,318.5*	*1,163.0*	*-1,155.5*	*-49.8*

Source: Pakistan Bureau of Statistics

[22] Business Confidence Index (BCI) declined by 6.0 points during H1-FY23 on account of macroeconomic conditions. Source: State Bank of Pakistan's Business Confidence Survey.

Destination-wise Exports of Pakistan during Jul-Nov **Table 5.6**

million US$

	FY22	FY23	YoY change in FY23
EU-27	4,082.0	3,667.5	-10.2
Netherlands	*629.9*	*706.1*	12.1
Spain	*473.7*	*593.1*	25.2
Italy	*397.1*	*453.4*	14.2
Germany	*712.6*	*730.9*	2.6
US	2,697.6	2,307.7	-14.5
China	1,322.4	859.3	-35.0
UK	920.6	815.4	-11.4
Africa	633.7	604.2	-4.6
UAE	500.5	593.5	18.6
Bangladesh	385.5	330.6	-14.3
Afghanistan	274.8	418.6	52.4
Malaysia	183.6	128.2	-30.2
S. Arabia	154.1	74.7	-51.5

Source: Pakistan Bureau of Statistics

Exports

The merchandize exports declined to US$ 14.3 billion in H1- FY23 from US$ 15.1 billion last year. Disaggregated PBS data of Jul-Dec FY23 shows that the fall in exports was driven by both declining trend in export volumes and unit values. More specifically, high value added (HVA) textiles and food group, mainly contributed to the decline in exports.[23] This decline owed to the weak global demand and lackluster performance of the domestic economy amid the demand curtailing measures and rising input cost.[24] The non-textile exports also fell by 3.3 percent during H1-FY23 compared to 23.2 percent growth last year reflecting lower external demand.

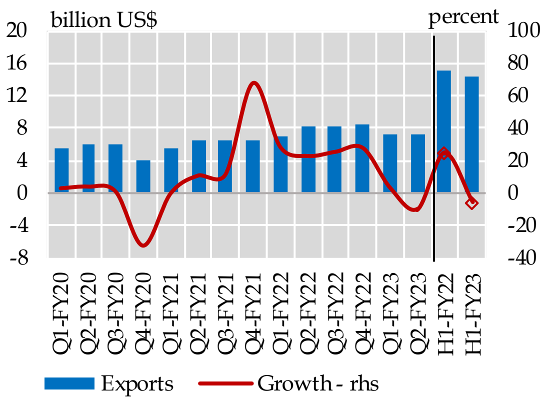
With respect to direction of exports, the drop was mainly seen in the major traditional markets, including US, China, and UK (**Table 5.6**). Exports to Malaysia, Bangladesh and Africa declined during Jul-Nov FY23. The fall could be traced from lower exports of food products and textile raw materials to Malaysia and Bangladesh respectively; amid the production disruptions due to recent floods.

On quarterly basis, there was a sharp dip in YoY growth of exports during Q2-FY23 compared to Q1-FY23. This could be traced to the base effect, as exports recorded a growth of 22.5 percent in Q2-FY22, highest since FY12 for the same period (**Figure 5.19**). Last year, the revival of economic activity and the subsequent pent-up demand in major export markets drove overall exports in Q2-FY22.

Drag in textile sector dented the exports during H1-FY23

Textile exports declined by 7.1 percent to US$ 8.7 billion during H1-FY23 from US$ 9.4

Trend in Exports **Figure 5.19**



Source: Pakistan Bureau of Statistics

[23] High value added products include apparel and home textile

[24] Large-scale manufacturing declined by 3.7 percent in H1-FY23 compared to a 7.7 percent rise last year.

Major Textile Sector Exports **Table 5.7**

million US$

	H1-FY22	H1-FY23	Change	VE	PE
Apparel	4,332	4,300	-33	921	-953
Home textiles	2,184	1,919	-265	-513	248
Cotton Fabrics	1,135	1,066	-68	-271	202
Cotton Yarn	610	382	-229	-259	30
Other Textile Made-up (excl. Towels & Bedwear)	422	378	-45		
Other Textile Material	385	367	-18		
Art Silk and Synthetic Textiles	225	209	-16	-42	26
Total Textile Exports	**9,381**	**8,717**	**-664**	**-**	**-**

Note: VE: Volume Effect; PE: Price Effect

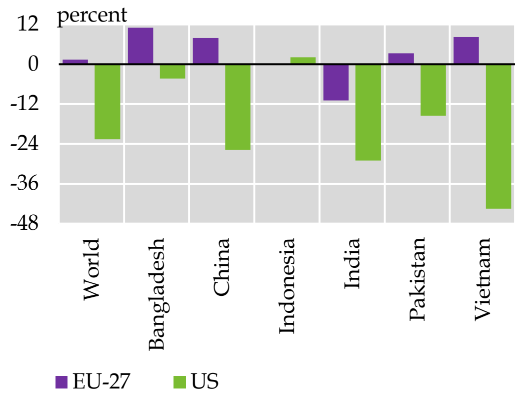
Source: Pakistan Bureau of Statistics

billion last year, mainly stemmed from the negative volume impact in the main categories (home textiles, cotton fabrics and cotton yarn). However, in case of apparel the fall in unit values more than offset the higher volume impact, resulting in deterioration in its exports (**Table 5.7**).

This performance was a result of both the demand and supply side factors. On demand side, the main factor that undermined the textile exports was the slowdown in the major importing economies due to tight monetary policies amid high inflation and lingering Russia-Ukraine conflict. In particular, exports of home textile fell due to lower demand in EU, US, and UK (**Figure 5.20a and 5.20b).** Meanwhile, the slowed economic activity on the back of Covid outbreak in China affected the export of cotton yarn and fabric.

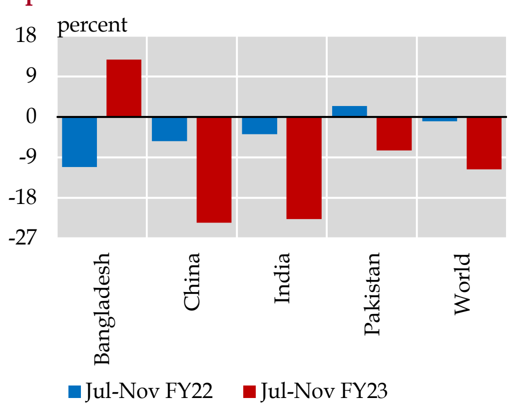
Exports of apparel (knitwear and readymade garments) also remained under pressure, which dropped by US$ 33 million in H1-FY23 from last year. This drag was the outcome of fall in unit prices which held back the values, more than offset the rise in

Growth in Quantum Home Textile Imports of the EU and the US in H1-FY23 **Figure 5.20a**



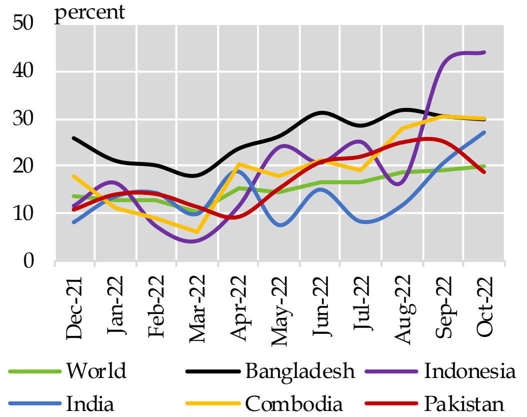
Source: Emerging Textiles

Growth in Quantum Home Textile Imports of the UK **Figure 5.20b**



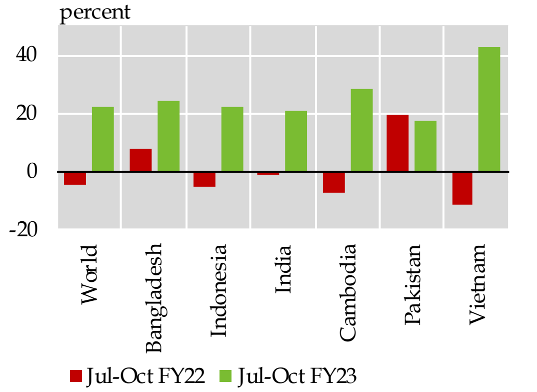
Source: Emerging Textiles

Decline in Unit Prices of Apparel **Figure 5.21**



Source: Eurostats

Apparel Imports of EU27 - YoY Growth **Figure 5.22**



Source: Eurostats

volume gains (**Figure 5.21**).[25] A sharp dip of 23 percent in unit value of apparel explained the deterioration in its export receipts in H1-FY23. This muted the impact of higher apparel volume exports. Apparel registered higher demand in the traditional markets like EU-27 (**Figure 5.22**). Also, the Covid lockdowns in China led the export orders to the alternate markets, resulting in higher volume exports from Pakistan.[26]

On supply side, various factors kept the textile exports under pressure during the review period: the increased production cost amid rising electricity and gas prices, monetary policy tightening, a slowdown in the disbursement of SBP's concessionary refinance schemes (LTFF and TERF), and shortage of raw material on account of flood losses.

Non-textile exports growth subdued in the H1-FY23

Non-textile exports declined by 3.3 percent to US$ 191 million in H1-FY23. The decline was mainly driven by the agro-food products amid the lower production in the flood-affected areas. The quarterly data in non-textile exports showed a similar trend like textile exports. The decline was visible in Q2-FY23 due to a large base impact of same period last year, reflecting higher external demand of these products (**Table 5.8**).

Within agro-food exports, the negative volumes subdued the higher unit price impact mainly in rice, and oil seeds exports. Rice, having a largest share in food exports, sharply declined on account of a drop in the production of the rice amid the recent floods in the country that mainly affected the non-

[25] It is important to note that the significant increase in unit prices of apparel in FY22 was driven by higher demand for apparel exports arising in the backdrop of partial resumption of industrial activity and export order delays in other competing markets.
[26] US apparel volume imports from China dropped by 2.4 percent in 2022 compared to last year. While, shipments from all other countries increased by 14.8 percent during the period. Source: Emerging Textiles

Major Non-textile Exports (Jul-Dec) Table 5.8

million US$

	FY22	FY23	Change
Leather products	320	315	-4
Chemicals	300	337	38
Ethyl alcohol	*129*	*201*	72
Rice	1,067	927	-140
Basmati rice	*304*	*279*	-25
Non-basmati rice	*763*	*648*	-115
Fish and fish preparations	200	225	24
Sports goods	164	209	45
Total	3,246	3,140	-106
Non-textile, total	**5,744**	**5,553**	-191

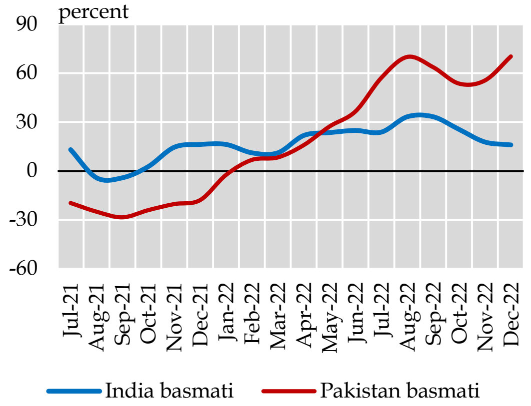
Source: Pakistan Bureau of Statistics

basmati cultivation areas.[27] As a result the exports of non-basmati rice declined by US$ 114.8 million during H1-FY23. Whereas, the price impact remained positive owing to the higher global rice prices. This surge in prices of rice was mainly driven by the supply side constraints, as India imposed ban on export of rice in September 2022, aimed at managing the national food security in the backdrop of rising inflationary pressures (**Figure 5.23**).

The exports of various products including oils seeds, cement and clinkers registered a decline in H1-FY23. The decrease was mainly driven by the negative volume impact, particularly visible in exports to China. The volume of these exports to China, the main destination, fell by 9.7 percent and 96.4 percent, respectively, amid a slowdown in the Chinese economy during the review period.

However, sports goods and chemicals showed improvement in H1-FY23. Within

Growth in Prices of Basmati Rice Figure 5.23



Source: Food and Agriculture Organization

sports goods, almost the entire increase came from footballs amid the higher demand on account of the FIFA world cup in November and December 2022. Exports of fish and fish preparations also increased by US$ 24 million in H1-FY23. This increase was attributed to higher volume exports to China.

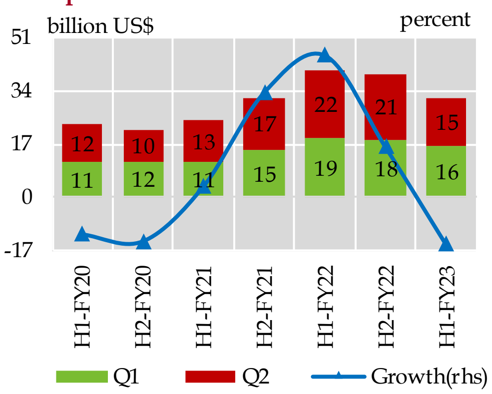
Imports

In contrast to a historically rising trend, Pakistan's imports plunged by 23.0 percent YoY to US$ 31.2 billion, in H1-FY23 (**Figure 5.24**) and this decline persisted throughout H1-FY23. Where exchange rate depreciation had a role in impacting the overall imports, administrative and regulatory measures taken by the government and SBP also remained pivotal in compressing imports and constraining the domestic demand pressures on external account amid depleting foreign exchange reserves (**Figure 5.25**).

For instance, SBP has imposed 100 percent cash margin requirements (CMRs) on the

[27] The production of rice declined by 40 percent as compared to last year. Area under cultivation also declined. The flood damage was most severe in Sindh province where mostly non-basmati with higher yields is cultivated (**Chapter 2**).

Quarterly and Half-yearly Trend in Imports **Figure 5.24**



Source: Pakistan Bureau of Statistics

import of 114 mostly non-essential items in September 2021, and then on another 177 items in April 2022.[28]

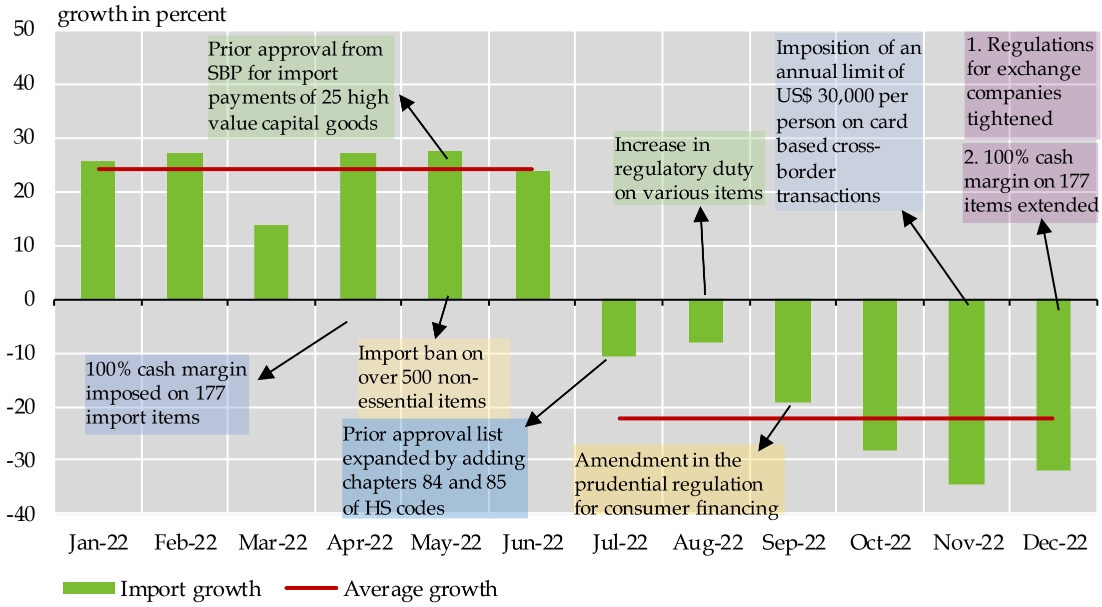
While global commodity prices also started tapering off during the period, the decline in imports was mainly volume based. Contribution of all other sectors, except food, to the overall imports growth remained negative in H1-FY23 (**Figure 5.26**).

Energy Imports

Energy imports, which more than doubled in H1-FY22 predominantly due to higher international crude oil prices and rising energy demand, declined by 8.8 percent to US$ 9.3 billion in H1-FY23 from US$ 10.2 billion in the same period last year.

A confluence of factors could explain the declining trend in petroleum imports: i) Overall slowdown in the economic activity amid monetary policy tightening reduced the demand for petroleum products; ii) The restricted mobility and infrastructural damages in the wake of monsoon floods

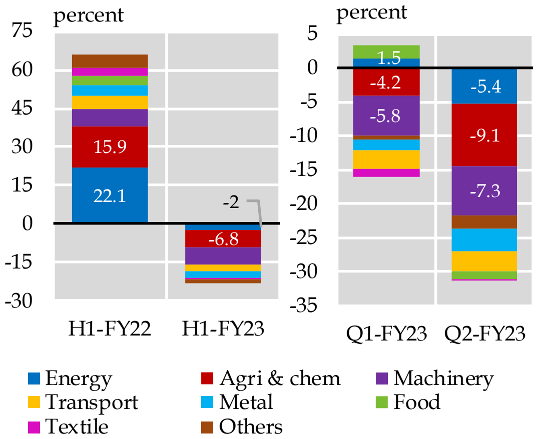
Regulatory Measures and Import Growth **Figure 5.25**



Source: State Bank of Pakistan, Ministry of Commerce and Federal Board of Revenue

[28] CMR was initially imposed in February 2017. As of December 2022, the total number of products attracting CMRs to 702.

Key Sectors Driving the Half-Yearly and Quarterly Imports **Figure 5.26**



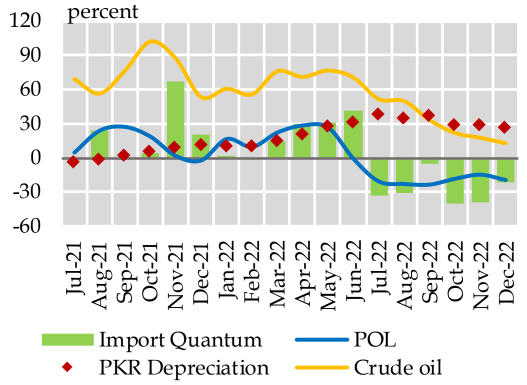
Source: Pakistan Bureau of Statistics

dented transport sector's demand; iii) Reduced power generation amid suppressed commercial usage also contributed towards declining POL sales **(Figure 5.27).**

The decline was mainly led by the negative volume impact of energy imports which more than offset the positive price effect, with an exception of petroleum crude where the positive price effect was more pronounced (**Figure 5.28**).

Energy imports fell mainly due to 36.9 percent decline in the imports volume of petroleum products. Among petroleum products, import volumes of HSD and furnace oil almost halved partly on account of lower demand amid economic slowdown. A broad-based decline is recorded in the POL sales across all sectors reflecting a general slowdown in domestic demand for these products. Particularly, High Speed Diesel (HSD) sales declined for the transport sector due to higher petroleum prices and flood related damages to road infrastructure; and

Factors that Underpinned the Downturn in Energy Imports **Figure 5.27**

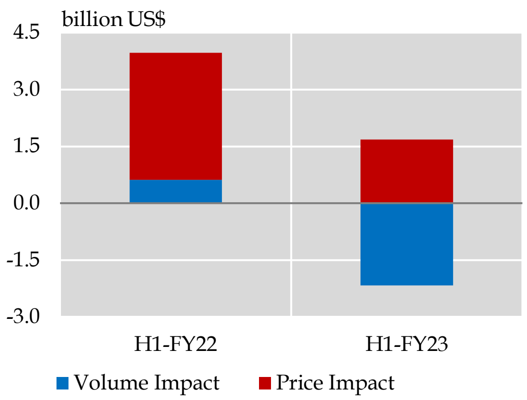


Source: SBP, IMF, OCAC and PBS

for the industrial sector as a result of slower economic activity.[29] Further, furnace oil sales declined mainly in the power sector on account of lower power generation. (**Figures 5.29a & 5.29b).**

However, in the case of petroleum crude, the positive price effect was more pronounced compared to the negative volume impact owing to the growth in global crude prices. Meanwhile, the imports of coal and LNG

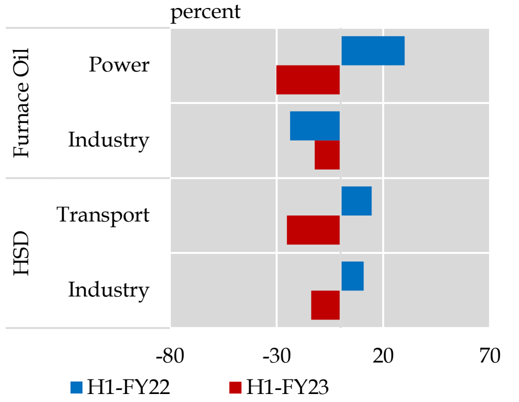
Petroleum Imports **Figure 5.28**



Source: Pakistan Bureau of Statistics

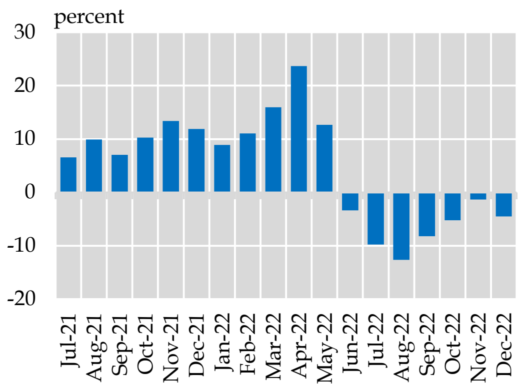
[29] Data Source: Oil Companies Advisory Council sectoral sales data

Growth in Sector-wise Sales of Furnace Oil & HSD **Figure 5.29a**



Source: Oil Companies Advisory Council

Electricity Generation Declined in H1-FY23 **Figure 5.29b**



Source: National Electric Power Regulatory Authority

also registered a decline in H1-FY23. The weak demand arising from the coal based power generation plants was mainly driving the decline in coal imports. However, the supply chain disruptions in the backdrop of Russia-Ukraine crisis explained a decrease in LNG imports.

Non-energy Imports

Non-energy imports declined by 19.3 percent to US$ 22 billion in H1-FY23 from US$ 27.2 billion in the same period last year. Except for a 2.4 percent growth in Food imports, non-energy imports witnessed a broad-based decline during the period. In addition to economic slowdown, import compressing measures taken by government and SBP also contributed to the decline in imports particularly non-energy imports. These measures include, monetary policy tightening by 225 bps, Ministry of Commerce ban on 566 items for a limited time, imposition of CMR on additional 177 items[30], and condition of prior approval from SBP before opening L/Cs of CKD cars and items under Ch. 84 & 85 of HS Codes etc.[31]

Agriculture and Chemical

Agriculture and Chemical imports declined by 34.8 percent to US$ 5.2 billion from US$ 7.9 billion in the same period last year. Within this group, imports of medicinal products fell by 76.3 percent (**Figure 5.30**). This sharp decline can be explained by lower imports of Covid vaccines as country imported its significant volume last year, and contributed 5.8 percent to the overall 23 percent decline in imports. With the exception of minor growth in the imports of insecticides, plastic material, other chemicals

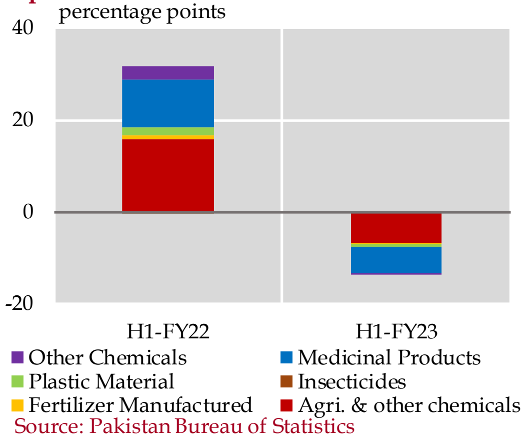
[30] Imposition of cash margin requirements on additional 177 items in April 2022 (www.sbp.org.pk/bprd/2022/CL9.htm), along with reporting requirements for banks to report CMR collected on the related imports, sunset clause of which was later extended to March 31, 2023 (www.sbp.org.pk/bprd/2022/CL37.htm)

[31] Requirement for banks to obtain prior approval from SBP before opening L/Cs of 25 high value capital goods, including CKD cars in May 2022; (www.sbp.org.pk/epd/2022/FECL9.htm), to which complete Chapters 84 and 85 of HS codes were included in July 2022 (www.sbp.org.pk/epd/2022/FECL11.htm)

and fertilizer imports remained lower than the level of previous year.

The decline of 10.7 percent in fertilizer imports is mainly driven by the substantially declining volume of DAP imports. Particularly, this trend is on the back of supply shortages caused by Russia-Ukraine conflict, unavailability of ammonia, primary raw material, resulting in production decline of DAP, and export restrictions imposed by China to meet its domestic DAP requirements. Meanwhile, the global fertilizer prices (including DAP and Urea) showed signs of YoY growth in Q1-FY23, sliding prices in Q2-FY23 kept the half yearly growth of fertilizer prices moderate.

Agriculture and Chemical Imports - Contribution in Growth — **Figure 5.30**



Source: Pakistan Bureau of Statistics

Machinery

Machinery group imports were recorded at US$ 3.2 billion in H1-FY23 (lowest in nine years), 45 percent down from US$ 5.9 billion in H1-FY22. While monetary tightening during the period made financing of machinery more expensive in general, aligning of LTFF rates with the policy rate and exhaustion of TERF have also dis-incentivized the financing of machinery imports as also depicted in the significantly lower disbursements under these schemes. In addition, other regulatory and administrative measures (such as prior approval of SBP before opening L/Cs) were particularly focusing on non-essential items under the machinery group and caused machinery imports to drop significantly.

Within machinery group, the major decline was recorded in the import of mobile phones followed by power generating machinery, other machinery and textile machinery.

Previously higher mobile prices due to shortage of semiconductor chips have started to moderate as inventories for semiconductor chips have begun to pile up amid lower sales of mobile phones.[32] Moreover, administrative measures focusing particularly on chapter 85 under HS codes also led to lower import under this category.

The impact of these measures also reflected in the lower imports of power generating machinery which dropped to US$ 288 million in H1-FY23 from US$ 990 million in H1-FY22. Further, completion of various CPEC projects cause these imports to decline.

Similarly, textile machinery imports declined by 44 percent to US$ 242 million in H1-FY23 against the US$ 435 million imports in the same period last year. In addition to import compression measures, lower disbursements

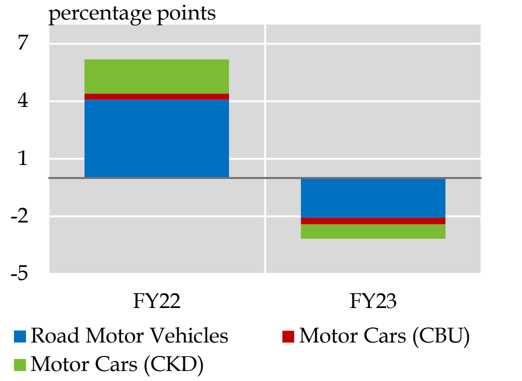
[32] Source: https://asia.nikkei.com/Business/Tech/Semiconductors/Chip-glut-to-last-most-of-2023-while-automotive-crunch-persists

under TERF also caused the textile machinery imports to decline.

Transport

Transport group imports recorded a 50 percent drop to the level of US$ 1.2 billion in H1-FY23 from US$ 2.3 billion H1-FY22. CKD/SKD vehicles imports decreased by US$ 489 million and steered the overall decline in transport imports (**Figure 5.31**). Within CKD/SKD vehicles, motor car imports declined significantly and reached the level of US$ 498 million in H1-FY23 from US$ 808 million in H1-FY22. Regulatory measures taken by SBP during H1-FY22 and H2-FY22 started to impact the import of road motor vehicles in general and import of CKD/SKD motor cars in particular during H1-FY23.[33, 34] Following this, imports for aircrafts, ships and boats fell by US$ 353 million to US$ 88 million in H1-FY23.

Transport Imports during H1 - Contribution in Growth **Figure 5.31**



Source: Pakistan Bureau of Statistics

Metals

Overall lower economic activity and lower demand in auto and housing sectors along with demand compressing measures led the metal imports to fall by US$ 1 billion and that is largely under the category of iron and steel and its scraps. The average unit value of iron and steel slightly increased as opposed to the lower average unit value of their scrap. On the other hand, international iron ore prices also saw a decline during the period. Overall import of steel dropped on the account of lower construction activity. As evident in the quantum index numbers of large scale manufacturing (LSM) industries, declining production of iron and steel products, and automobiles also led to lower demand for imported iron and steel and their scrap (**Figure 5.32**).

Food

Unlike the broad-based decline in the imports of all other sectors, food imports grew by 2.4 percent during H1-FY23. Growth in food imports was mainly driven by the growth in the imports of palm oil, pulses and wheat **(Figure 5.33**).

Although volume of palm oil imports declined over the period, substantial increase in its price caused the import value to rise. On the other hand, imports of pulses and wheat increased both in volume and price.

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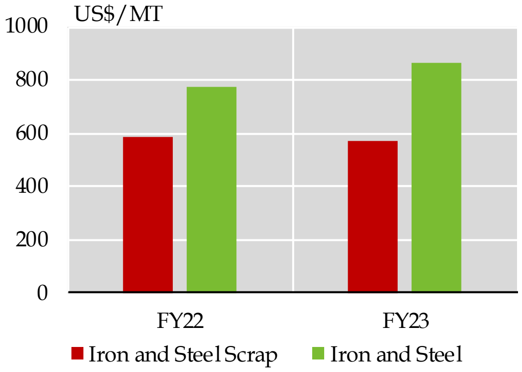
33 SBP attempted to restrict the demand for automobiles by amending the prudential regulation for consumer financing in H1-FY22. The key measures include, restricting the amount of the amortized payments to 40 percent of the monetized salary of the borrower, reducing the maximum tenure for the car financing from seven years to five years, increasing the minimum down payment from 15 percent to 30 percent, and limiting the overall auto financing limits by one person from all banks/DFIs (in aggregate) to Rs. 3,000,000 at any point in time. Source: www.sbp.org.pk/bprd/2021/CL29.htm

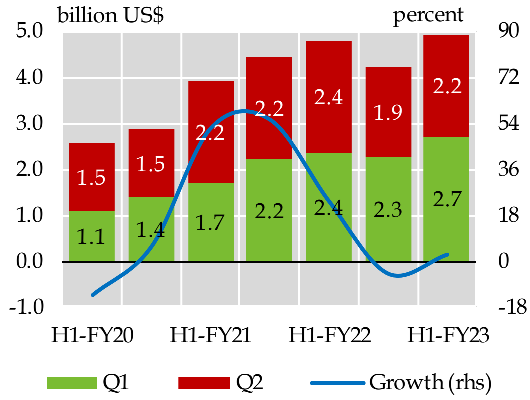
34 Requirement for banks to obtain prior approval from SBP before opening L/Cs of 25 high value capital goods, including CKD cars, in May 2022 (H2-FY22). Source: www.sbp.org.pk/epd/2022/FECL9.htm

Average Unit Value of Iron & Steel and Scrap Imports **Figure 5.32**



Source: Pakistan Bureau of Statistics

Trend in Food imports **Figure 5.33**



Source: Pakistan Bureau of Statistics

Uptick in wheat imports volume may also be attributed to Government's efforts to ensure sufficient stocks until next harvest in April 2023. Whereas, wheat prices also surged as a result of supply disruptions amid Russia-Ukraine war. On the other hand, sugar imports decreased to US$ 3.3 million in H1-FY23 mainly due to the base effect.